



The Pakistan Credit Rating Agency Limited

Rating Report

JS Investments Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Sep-2020	AM2	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects the Company's modest positioning in the competitive asset management industry. The rating incorporates the Company's sound governance structure, experienced management team, adequate investment decision making process and robust fund slate. The Company managed to sustain its AUMs in absolute terms (~PKR 18bln to ~PKR 20bln) during FY20 but the overall market share decreased to ~2.4% (Jun'19: 3.6%). The Company has adequate retail customer base and the management is focusing on strengthening its digital platform for better retail penetration, distribution and customer services. The concentration at fund level remains high. The Company's product slate is tilted towards fixed income/money market funds. The Company plans to further diversify its product slate and has already initiated private equity and venture capital funds. The management has also been granted license to carry out REIT Management services. Materialization of these initiatives in AUM growth and better market share is important. The profitability of the Company remained under pressure due to increase in operating expenses and lower fee income as compared to peers. The management is cognizant of this fact and has undertaken several measures to ensure operational sustainability. Improving AUMs, in turn, fee is important for future viability. The rating incorporates the Company's association with JS Bank Limited and potential synergies due to established presence of JS Group in the financial sector.

The rating is dependent on the management's ability to effectively execute business development plans and leveraging its digital initiatives to strengthen its operations and outreach. Sustaining above average fund performance, increasing market share and further strengthening investment process remains key rating factors.

Disclosure

Name of Rated Entity	JS Investments Limited
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology AMC (Jun-20)
Related Research	Sector Study Asset Managers(Jun-20)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504



Profile

Structure JS Investments Limited (“JSIL” or the “Company”) is a public listed company incorporated in 1995. JSIL is licensed to carry out asset management, investment advisory, private equity and venture capital fund management services.

Background JSIL is the oldest private sector Asset Management Company in Pakistan founded by International Finance Corporation and INVESCO Plc. JSIL provides a wide range of mutual funds and pension funds both in conventional and shariah compliant category. JSIL also provides SMA services to HNW individuals and corporate clients.

Market Share JSIL is a small sized AMC with market share of ~2.4% at end May’20 (Jun’19:~3.6%).

Diversification Of Fund Mix JSIL is currently managing a diverse product slate of thirteen funds in eight different conventional and shariah compliant categories and two voluntary pension schemes.

Investor Concentration The average top 10 investor concentration at fund level remains high and stood at ~66% at end May’20. The average related party holding was ~7% of total AUMs.

Ownership

Ownership Structure JSIL is a subsidiary of JS Bank Limited with ~85% stake, while remaining shares are held by financial institutions and general public.

Business Acumen JS Bank Limited is a majority owned subsidiary (~75%) of Jahangir Siddiqui and Company Limited. The Bank is one of the fastest growing banks of Pakistan and had 360 branches at end Mar’20 in 172 cities of Pakistan with 1 international branch in Bahrain.

Financial Strength JS Bank Limited has an unconsolidated asset base of ~PKR 478bln at end Mar’20 accompanied by equity of ~PKR 18bln. The long-term credit rating of JS Bank is ‘AA-’ and the short-term rating is ‘A1+’.

Governance

Board Structure JSIL’s control vests in eight member board of directors, including the CEO. There are two independent directors, while all other directors are non-executive.

Members’ Profile The board carries diversified experience (23 Years on average) in different business areas, especially in banking and investment management. The board members possess strong profile and skills suited to the financial services industry.

Board Effectiveness To ensure an effective control environment and compliance with reporting standards, JSIL has constituted an Audit Committee, HR Committee and Executive Risk Management Committee at board level. Meeting minutes are formally recorded with strong follow up.

Financial Transparency JSIL has outsourced its internal audit department to M/S BDO Ebrahim & Co. for effective monitoring of control systems. The external auditors of the Company are M/S EY Ford Rhodes. They have a satisfactory QCR rating and are classified in the ‘A’ category of SBP Panel of Auditors.

Management

Organizational Structure JSIL has a well-defined organizational structure based on eight departments, i) HR and Administration, ii) Compliance and Risk Management, iii) Business Development, iv) Investments and Research, v) Information Technology, vi) Finance, vii) Business Planning & Strategic Initiatives and viii) Operations.

Management Team The management team of JSIL comprises of experienced and qualified professionals. Mr. Hasnain Raza Nensey is the CEO of JSIL since March 2017. He has a veteran of financial industry with overall experience of ~23 years. Mr. Zahid Ullah Khan is the Chief Investment Officer (CIO) and has been associated with the JS Group and the capital markets on the buy side for over 12 years.

Technology Infrastructure JSIL has implemented a Unit Management System (web-based application) and ERP Application (portfolio accounting system) by Softech Systems Private Limited. The IT department has formulated an IT Steering Committee which comprises four members to make timely decisions on IT issues. The Company is focusing on strengthening its technological platform to enhance its outreach and improve customer services.

Control Environment The compliance and risk management department is being led by Mr. Salman Shakoor. The department ensures compliance with all applicable statutory regulations and internal investment guidelines. Segregation of these functions, in line with best practices, along with minimizing overlap in others is important to strengthen the control environment. The Company is working to fortify its KYC/AML practices.

Investment Risk Management

Credit Risk The Risk Management Department measures credit risk of the entire portfolio as well as of individual transactions. Excel based credit risk scorecards are being used to provide statistical estimates for counter party credit risk.

Liquidity Profile The department ensures sufficient liquidity by investing in liquid avenues. Internally designed methods are used to classify stocks into liquid/semi liquid/IL-liquid categories. Further, it is also ensured that minimum cash and cash equivalent requirements are maintained at all times to fulfill payment obligations.

Market Risk For managing market risk, various techniques such as VaR analysis, beta analysis and stress testing are being used. The exposure limits applicable to interest-bearing securities are regularly reviewed and reported to the management

Portfolio Management

IC Composition The investment decision making process is well-structured with the CEO providing critical support. The members of investment committee also include the CIO, Director Finance, Chief Strategy Officer and Fund Managers.

Effectiveness The investment committee reviews the investment strategy of each fund under management and its performance on regular basis to incorporate the impact of various factors on funds’ performance. Induction of independent research head will further enhance effectiveness.

Investment Research And Analysis The research department, which falls under the purview of CIO, is headed by Mr. Syavash Pahore. He possess ~4 years of experience in equity research. Currently, his team comprises two qualified research analysts and a database manager.

Customer Relationship

Investor Services JSIL has an established investor services platform for investor education and facilitation. The customers are provided SMS and e-mail alerts for transactions, NAV prices, and other promotional alerts along with monthly detailed E-statements. The mobile app of the company provides various value-added services such as live news and financial market updates, equity market indices, investment account details and E-transactions.

Investor Reporting JSIL disseminates unit holder statement on monthly basis, which comprises monthly NAVs, benchmark return comparisons and asset allocations. JSIL publishes FMRs on its website in a timely manner.

Distribution And Sales Network Currently, JS Bank, the parent company, is the only alternate distribution partner of JS Investments Limited. JSIL is considering to expand its outreach by using digital platforms with a greater focus towards enhancing the retail clientele.

Performance

Asset Under Management The AUMs of JSIL (CIS & VPS) declined to ~PKR 18.6bln at end May’20 (Jun’19: ~PKR 19.2bln). The market share fell to 2.4% at end May’20 (Jun’19: 3.6%) as the industry grew at a faster pace with strong competition. The management is cognizant of this and is working on various initiatives including diversifying product slate and offering REIT management services. The overall fund performance remained satisfactory and around the benchmark, with fixed income funds providing above average returns, except for the shariah compliant Fund of Funds category, which notably, under performed.

Asset Manager The Company reported net loss of ~PKR 276mln for the quarter ended Mar’20 (SPLY: ~PKR -32mln). The loss is mainly attributable to unrealized loss on revaluation of investments. The Company has relatively lower fee income when compared to peers. The equity stood at ~PKR 1.5bln at end Mar’20, which is well above the minimum capital requirement of PKR 230mln.



The Pakistan Credit Rating Agency Limited

Fund's Performance JS Investments Limited														
Sr. No.	Fund Name	Category	Weight (%)	AUMs (PKR' mln)				Return 12 M Trailing (%) (Jun-19 to May-20)			12 M Trailing		Top Ten Investors Concentration	Ranking (Dec-19) Stability Rating (Dec-19)
				May-20	Mar-20	Dec-19	Jun-19	Return	Ind. Avg.	Bench.	Fund vs. Industry	Fund vs. Bench.		
1	JS Cash Fund	Money Market	29.9%	5,564	5,029	3,709	2,903	13.7%	12.9%	12.7%	0.7%	0.9%	72%	AA+
2	JS Fund of Funds	Fund of Funds	1.2%	215	181	241	214	1.9%	4.2%	-4.4%	-2.2%	6.4%	95%	-
3	JS Growth Fund	Equity	8.1%	1,510	1,220	1,596	1,347	-0.5%	-7.3%	-8.2%	6.8%	7.7%	72%	3 Star
4	JS Income Fund	Income	8.5%	1,580	1,427	2,565	2,401	10.8%	14.6%	12.7%	-3.7%	-1.8%	47%	A+
5	JS Islamic Hybrid Fund of Funds (JS Islamic Capital Preservation Allocation Plan VIII)**	Shariah Compliant Fund of Funds - CPPI	3.3%	614	608	750	0	-13.9%	1.1%	-12.6%	-15.0%	-1.3%	70%	-
6	JS Islamic Hybrid Fund of Funds III (JS Islamic Capital Preservation Allocation Plan VI)***	Shariah Compliant Fund of Funds - CPPI	3.0%	565	563	675	824	1.3%	1.1%	0.9%	0.2%	0.4%	67%	-
7	JS Islamic Fund	Shariah Compliant Equity	2.2%	413	334	545	582	-10.8%	-6.9%	-5.3%	-3.9%	-5.5%	27%	2 Star
8	JS Islamic Hybrid Fund of Funds (Mufeed)	Shariah Compliant Fund of Funds	0.0%	0.34	0.40	34	31	-47.2%	2.5%	-40.7%	-49.6%	-6.5%	100%	-
9	JS Islamic Hybrid Fund of Funds (Mustahkem)	Shariah Compliant Fund of Funds	0.0%	0.23	0.25	0.31	1	-28.7%	2.5%	0.9%	-31.1%	-29.5%	100%	-
10	JS Islamic Hybrid Fund of Funds (Mustanad)	Shariah Compliant Fund of Funds	0.0%	0.06	0.08	0.10	0.21	-24.5%	2.5%	4.4%	-26.9%	-28.9%	100%	-
11	JS Islamic Hybrid Fund of Funds (Mutanasib)	Shariah Compliant Fund of Funds	0.0%	7	7	13	14	-22.8%	2.5%	-7.2%	-25.3%	-15.7%	85%	-
12	JS Islamic Hybrid Fund of Funds II (JS Islamic Capital Preservation Allocation Plan I)****	Shariah Compliant Fund of Funds - CPPI	0.0%	0	0	1,381	2,133	-	-	-	-	-	-	-
13	JS Islamic Hybrid Fund of Funds II (JS Islamic Capital Preservation Allocation Plan II)	Shariah Compliant Fund of Funds - CPPI	7.4%	1,375	1,367	1,394	1,565	6.8%	1.1%	1.6%	5.7%	5.3%	46%	-
14	JS Islamic Hybrid Fund of Funds II (JS Islamic Capital Preservation Allocation Plan III)	Shariah Compliant Fund of Funds - CPPI	6.4%	1,199	1,194	1,327	1,367	-1.5%	1.1%	-3.6%	-2.6%	2.2%	46%	-
15	JS Islamic Hybrid Fund of Funds II (JS Islamic Capital Preservation Allocation Plan IV)	Shariah Compliant Fund of Funds - CPPI	5.9%	1,106	1,101	1,273	1,376	-4.1%	1.1%	-5.5%	-5.2%	1.4%	46%	-
16	JS Islamic Hybrid Fund of Funds II (JS Islamic Capital Preservation Allocation Plan V)	Shariah Compliant Fund of Funds - CPPI	3.4%	631	627	806	1,164	-7.3%	1.1%	-7.3%	-8.4%	0.0%	38%	-
17	JS Islamic Hybrid Fund of Funds III (JS Islamic Capital Preservation Allocation Plan IX)	Shariah Compliant Fund of Funds - CPPI	1.2%	229	0	0	0	-8.1%	1.1%	-7.1%	-9.2%	-1.0%	69%	-
18	JS Islamic Hybrid Fund of Funds III (JS Islamic Capital Preservation Allocation Plan VII)*	Shariah Compliant Fund of Funds - CPPI	2.5%	468	465	568	0	-8.7%	1.1%	-7.2%	-9.8%	-1.5%	49%	-
19	JS Islamic Income Fund	Shariah Compliant Income	2.7%	497	487	358	313	10.3%	10.6%	6.5%	-0.4%	3.8%	55%	AA-
20	JS Large Cap Fund	Equity	1.9%	353	300	507	542	-13.8%	-7.3%	-8.2%	-6.5%	-5.5%	29%	2 Star
21	JS Value Fund	Equity	2.7%	494	414	681	603	-6.0%	-7.3%	-8.2%	1.3%	2.3%	71%	1 Star
22	Unit Trust of Pakistan	Balanced	5.0%	936	809	1,027	1,032	-1.0%	0.5%	1.3%	-1.5%	-2.3%	77%	1 Star
23	Voluntary Pension Scheme	VPS	4.5%	842	781	871	763	-	-	-	-	-	-	-
Sum/Average:				18,599	16,914	20,321	19,174						65%	

*Plan launched in Sep-2019.

**Plan launched in Dec-2019.

***Plan launched in Apr-2019.

****Plan has been matured

Asset Manager Rating

An independent opinion on the quality and expertise deployed by an asset management company

Scale	Definition
AM1	Very high quality. Asset manager meets or exceeds the overall investment management industry best practices and highest benchmarks.
AM2++ AM2+ AM2	High quality. Asset manager meets high investment management industry standards and benchmarks with noted strengths in several of the rating factors.
AM3++ AM3+ AM3	Good quality. Asset manager meets investment management industry standards and benchmarks.
AM4++ AM4+ AM4	Adequate quality. Asset manager demonstrates an adequate organization that meets key investment management industry standards and benchmarks.
AM5	Weak. Asset manager does not meet the minimum investment management industry standards and benchmarks.

<p>Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.</p>	<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.</p>	<p>Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

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- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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